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Issues '98

June 1998

Fact Sheet #1: Cost Management

[*\(return to keeping Current\)*](#)

We are inviting you to participate in Issues '98. This is a public process designed to give you an overview of and a context for major policy issues surrounding BPA's future. Your input will help BPA develop planning assumptions for our power and transmission rate cases. With the exception of cost cutting recommendations, Issues '98 will not be a decision-making process by BPA. Instead, your comments will help inform decisions made in other forums, both within the region and by Congress. This fact sheet focuses on just one set of the broad issues that will be considered. To learn more about how to participate in Issues '98 or for more information on other issues, call (800) 622-4519.

Introduction

In September 1997, BPA and the Northwest Power Planning Council jointly launched a review of BPA's costs. The objectives of the Cost Review were to ensure that BPA's long-term power and transmission costs are as low as possible, consistent with sound business practices, enabling full cost recovery with power rates at or near market prices. The intent was to:

1. Give confidence to BPA customers, tribes and constituents that future FCRPS costs are being managed effectively;
2. Ensure that the subscription process results in a very high level of customer load commitment;
3. Minimize, if not avoid, transition (stranded) costs; and
4. Ensure that obligations to the U.S. Treasury, third party bondholders and fish and wildlife recovery are at least as secure as they are currently.

The Cost Review drew on the expertise of five executives with experience in managing large organizations going through competitive transitions. The panel addressed all costs, except fish and wildlife recovery costs, to be recovered through BPA power and transmission rates, with a focus on power costs in the initial subscription period, FYs 2002-2006. The panel's recommendations were

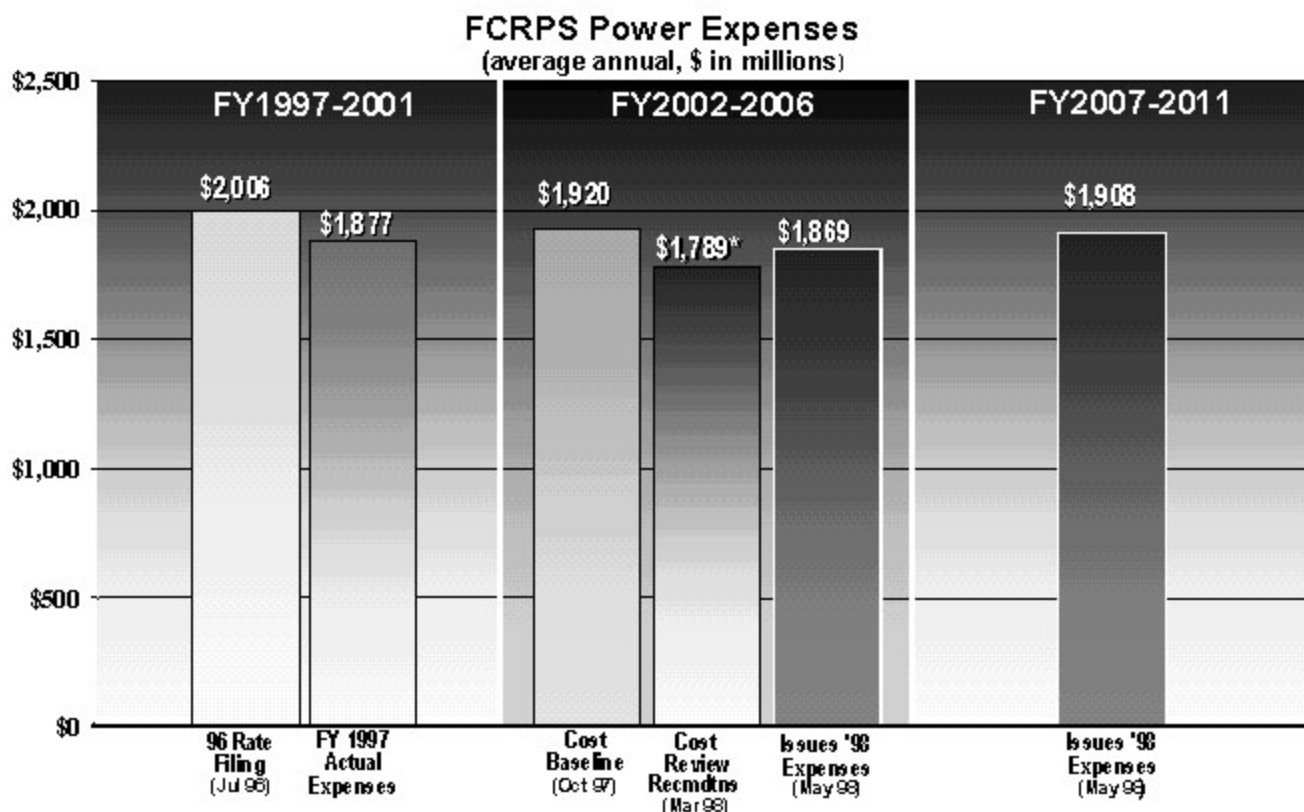
advisory in nature and were submitted after a regional public comment process to the Administrator in March. If the recommendations were achieved in full, Federal Columbia River Power System expenses for power in FYs 2000-2006 would be reduced by \$146 million from BPA's previous spending forecast and by \$232 million from expenses in current FY 1997-2001 rates.

Implementing the Cost Review recommendations presents significant challenges, not only for BPA, but also for our major power suppliers, the US Army Corps of Engineers, Bureau of Reclamation, and Washington Public Power Supply System. To recover \$10 million of the savings, BPA will need new statutory personnel, procurement and property management authority. Many of the Cost Review panel's recommendations are "stretch goals" that involve costs over which BPA has limited influence. BPA is targeting the full savings suggested by the panel but must acknowledge risks and uncertainty in our ability to achieve them. For example, achieving the recommended savings in Corps of Engineers and Bureau of Reclamation Operations and Maintenance depends on cooperative development of an aggressive asset management strategy and on the federal budget and appropriations process. BPA's cost reduction goals stand in a broader context of uncertainties, including variability of streamflows, power markets, fish and wildlife costs and regulatory change.

BPA is taking public comment on its proposed implementation of the recommendations through the Issues '98 process. At the conclusion of Issues '98, the Administrator will issue a final decision on planned spending for FYs 2002-2006. The decisions will be reflected in an upcoming power rate proposal.

BPA Proposes to Adopt the Cost Review Recommendations in Full

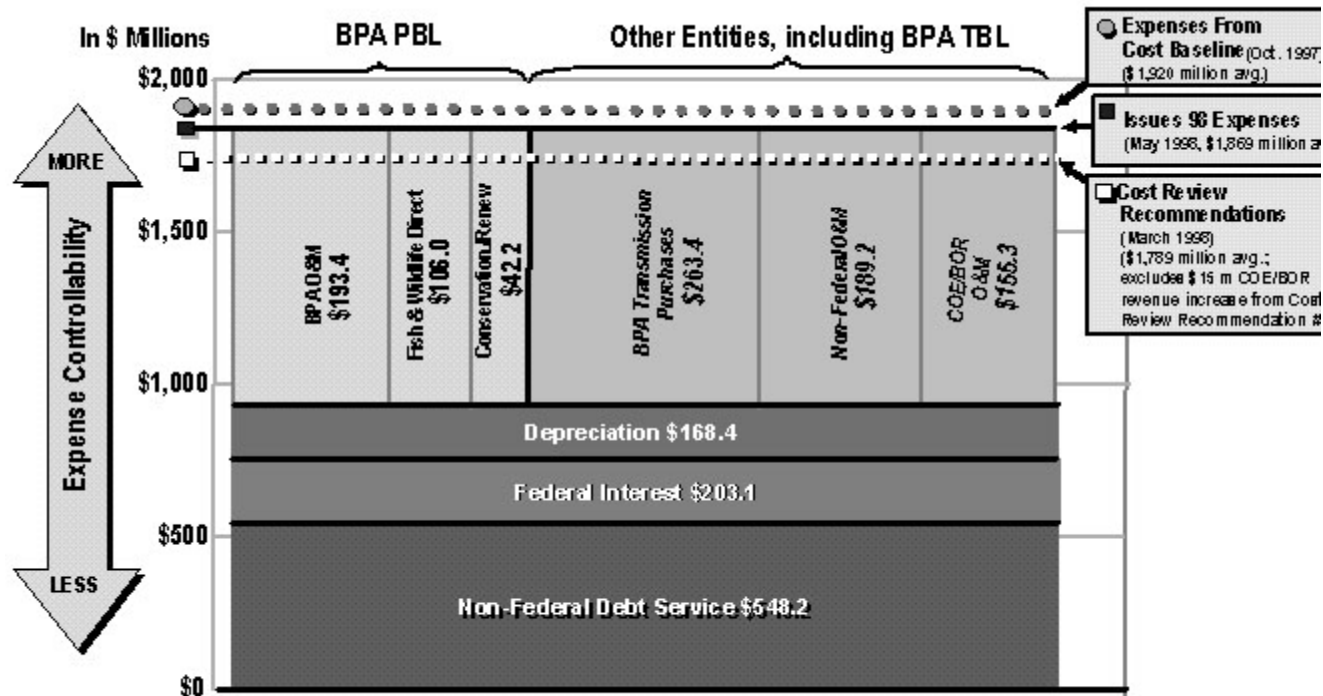
Issues '98 Expenses for Initial Subscription Period are \$137 m Lower than in Current Rates



**Excludes the \$15 million in Corps of Engineers/Bureau of Reclamation revenue increases recommended by the Cost Review Committee (recommendation #6). These increases will be included in the revenue forecasts.*

- BPA entered Cost Review with an expense baseline for FYs 2002-2006 that was \$86 million lower on the power side than expenses in current rates
- Cost Review recommended reducing this power baseline by an additional \$131 million (with an additional \$15 million in Corps/Bureau revenues)
- For Issues '98, BPA proposes to implement the Cost Review recommendations in a manner that would reduce the baseline by \$125 million
- 2002-2006 changes to the power baseline outside the Cost Review include inclusion of the cost of GTAs, as well as adjustments to interbusiness line and PNCA interchange expenses
- Some components of power expenses will change in rates development process this fall. Rates will also include a cash margin (planned net revenues) for risk management
- Expenses in FYs 2007-2011 are based on FY 2006 levels, escalated for inflation in operating cost categories.

Power Expense Projections FY 2002-2006 Averages



- BPA proposes to adopt the Cost Review recommendations, obtaining \$125 million in cost reduction from power cost baseline - Savings from legislation to improve administrative efficiency/effectiveness not included above (pending development & support for legislation)
- Changes outside Cost Review recommendations: GTA expenses added (+\$28 million); treatment PNCA interchange expenses and revenues modified (-\$20 million) and forecast of interbusiness expenses (BPA transmission purchases) updated (+\$66 million).
- Some expenses will change in rates development process, e.g. in-lieu transaction costs for residue exchange, resolution of allocation/functionalization/interbusiness line transaction issues, and Fed interest cost and earnings projections.
- In addition, rates will include a margin for risk management (planned net revenues).

Cost Review Recommendation #1:

Further reduce staffing and support costs of power marketing and other Power Business Line functions not directly related to operation of the federal power system.

(FY2002-06 Annual Average)

BPA Cost Baseline (Oct. 97): \$50.0 million/year

Cost Review Recommendation (Mar. 98): \$35.3 million/year

Cost Review Annual Savings: \$14.7 million/year

Issues '98 Annual Savings (May 98): \$14.7 million/year

Cost Review Recommendation:

Further reduce staffing and support costs of power marketing and other PBL functions not directly related to operation of the reoriented long-term marketing efforts.

BPA Proposed Plan:

- BPA intends to adopt the cost review recommendation for cost saving and staff reductions as its goal. BPA intends to pursue this goal consistent with the broader strategy of managing the FCRPS in a way that maximizes its value.
- Steps BPA is taking immediately toward achieving this goal include:
 - developing standardized power products and contracts to reduce staffing needed for contract administration in the future
 - focusing heavily on a successful subscription process, with a goal of all of BPA's firm power subscribed for multi-year periods, to reduce the need for future marketing effort
 - investing in automated systems for power scheduling and billing
 - when filling key vacancies, use staff from within PBL and BPA as much as possible
 - using early retirement and separation incentives

Challenges/Risks

- By themselves, the steps described above may not be enough to achieve the target reductions. The Cost Review assumption was that BPA's cost-based rates would be far below market, making it possible to subscribe all of the system for periods of at least 5 years, and probably longer. This in turn was assumed to allow large reductions in staffing and support costs for contracting, rate-setting, account executives, customer service and similar functions.
- It is not yet clear how close BPA can come to the Cost Review vision of BPA rates far below market and full long-term subscription. Many of the estimates of future fish mitigation cost scenarios for post-2001 are far higher than the level assumed in the Cost Review. The range of potential fish mitigation costs post-2006 is especially wide. BPA is working actively to define the range of fish costs it needs to plan to cover. Likewise, there is a wide range of expectations of market price levels after 2001.
- By mid-1999, several events will have occurred that should

	<p>make more clear whether the Cost Review vision of rates significantly below market can be realized: post-2001 market price expectations will be clearer; BPA's rate case should be completed; and many customers will have responded to BPA's subscription offer. These events will help to clarify the necessary level of long-term marketing and customer service support. In the meantime, BPA will continue to take the above-described steps toward the cost review reductions, and will treat the Cost Review recommendation for costs and staffing as its goal.</p> <ul style="list-style-type: none"> • Another challenge that has emerged since the Cost Review is increasing staffing demands created by the new California Power Exchange/Independent System Operator operation and the split between BPA's business lines. The new California market has created a substantially increased need for around-the-clock staffing in power scheduling, transmission acquisition and related functions for BPA and many other utilities and marketers on the West Coast. This increases the importance of creating automated systems to bring staffing levels for these core operations back down to Cost Review baseline levels. Nonetheless, these increased demands may result in higher numbers post-2001 than assumed in the Cost Review baseline staffing levels.
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Cost Review Recommendation #2

Fund regional conservation market transformation at a level proportional to the percent of the regional firm load served by Bonneville. Carry out a review of the need for, and the appropriateness of, continued Bonneville support beyond the 10-year life established in the Comprehensive Review.

(FY2002-06 Annual Average)

BPA Cost Baseline (Oct. 97): \$14.6 million/year

Cost Review Recommendation (Mar. 98): \$10.0 million/year

Cost Review Annual Savings: \$4.6 million/year

Issues '98 Annual Savings (May 98): \$4.6 million/year

Cost Review Recommendation:	BPA Proposed Plan:
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Fund regional conservation market transformation at a level proportional to the percent of the regional firm load served by Bonneville, as called for in the Comprehensive Review. Reductions shown reflect correction to Bonneville's baseline funding. Work with retail utilities and states to secure funding for conservation market transformation through state public purpose funds, as recommended by the Comprehensive Review. By no later than 2004, carry out a review of the funding available for this activity from other sources and the appropriateness of continued Bonneville funding beyond the 10-year minimum life established in the Comprehensive Review.

- Adopt recommendation. This recommendation is fully consistent with policy direction in the Comprehensive Review.
- The Cost Review figure of \$10 million reflects an estimate of Bonneville's share of the regional firm load in 2002-2006. BPA loads may be a greater or lesser proportion of regional loads; therefore, actual expenditures for market transformation may be higher or lower than \$10 million.
- BPA's collection of these costs in its rates will be competitively neutral, assuming that the states enact legislation that requires customer expenditures for market transformation and enables BPA customers to credit BPA funding towards their expenditure obligation.
- Work with retail utilities and the states to secure funding for conservation market transformation through state public purpose legislation, as recommended by the Comprehensive Review.
- By no later than 2004, review appropriateness of continued Bonneville support.

Cost Review Recommendation #3:

Reduce projection of legacy conservation contract and staffing expenses. Allow Bonneville to extend low-income weatherization contracts with the states to be consistent with the end of the legacy contract commitments to the utilities.

(FY2002-06 Annual Average)

BPA Cost Baseline (Oct. 97): \$10.0 million/year

Cost Review Recommendation (Mar. 98): \$7.5 million/year

Cost Review Annual Savings: \$2.5 million/year

Issues '98 Annual Savings (May 98): \$2.5 million/year

<p>Cost Review Recommendation:</p> <p>Reduce projected legacy conservation contract expenses to reflect historical under-spending. Do not modify or extend existing contracts, except that the States' low-income weatherization contract should be extended consistent with the end of the legacy commitment to utilities. Reduce associated staffing.</p>	<p>BPA Proposed Plan:</p> <ul style="list-style-type: none"> • Adopt recommendation. • Conservation contractors typically underspend contract budgets. Savings estimates reflect historical underspending trends, however, there remains significant uncertainty on actual utility spending. • Low-income weatherization agreements with the States will be extended, consistent with the Cost Review Recommendation. • Revised estimates reflect a reduction in associated staffing for this activity.
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Cost Review Recommendation #4:

Further reduce staffing/funding for the Northwest Power Planning Council.

(FY2002-06 Annual Average)

BPA Cost Baseline (Oct. 97): \$6.2 million/year

Cost Review Recommendation (Mar. 98): \$5.1 million/year

Cost Review Annual Savings: \$1.1 million/year

Issues '98 Annual Savings (May 98): \$1.1 million/year

<p>Cost Review Recommendation:</p>	<p>BPA Proposed Plan:</p> <ul style="list-style-type: none"> • Adopt recommendation as consistent with Council
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Further reduce funding for the Council to reflect changes in Bonneville's regional role (very limited new resource acquisition), to carry out the Council role in power as recommended by the Comprehensive Review, and to reflect the continued importance of fish and wildlife issues. Seek additional funding from other sources for Council activities that are of regional scope. Reductions assume one Council representative per state. A process should be carried out to determine both the functions the region wishes the Council to perform and how the functions should be funded.

- support.
- The reductions may put the Council's capacity to perform independent analysis for the region at risk.
- Once future role is clarified for the Council, BPA will work with the Council to look for other funding sources for activities that are of regional scope.

Cost Review Recommendation #5:

Renewable resource projects: new projects beyond those currently committed must be supported by incremental revenues that cover the additional costs.

(FY2002-06 Annual Average)

BPA Cost Baseline (Oct. 97): \$24.9 million/year

Cost Review Recommendation (Mar. 98): \$22.7 million/year

Cost Review Annual Savings: \$2.2 million/year

Issues '98 Annual Savings (May 98): \$2.2 million/year

Cost Review Recommendation:

Provide funding for costs of the three renewable resource projects that Bonneville currently is planning, and provide currently planned levels of renewable resource data collection and R&D. Annual net cost above project revenues should not exceed \$15 million per year, including the data collection and R&D costs. No additional renewable resource projects should be undertaken unless Bonneville's costs are recovered fully by project revenue.

BPA Proposed Plan:

- Adopt recommendation.
- BPA is proceeding with development activities on three renewable projects (two geothermal and one wind) that could result in a decision to proceed with construction on two of the projects. These would be in addition to the Wyoming Wind project currently under construction.
- We will attempt to hold costs for project development, operation and data

collection for these projects to less than \$22.7 million per year to ensure the net cost does not exceed \$15 million per year.

- We will also continue to market the output from the projects at green power rates, which will maximize cost recovery.
- Additional renewable projects will be acquired only if costs are fully recovered by resulting revenues.

Risks/Challenges

- Project costs could be higher than anticipated and actual revenues could be lower or higher than assumed depending on market.
- BPA might not be viewed as a desirable power supplier by target customers if it cannot meet their demand for new renewables, particularly if the market transformation activities recommended by the Comprehensive Review are implemented.
- The Cost Review rationale is that BPA's core business strategy should not include the development of additional renewable resources or additional related research unless project costs are fully recoverable by project revenues. This may be interpreted by some to be contrary to the Northwest Power Act purposes, which charge BPA broadly with encouraging renewable resource development.

Cost Review Recommendation #6:

Develop/implement a consolidated/integrated capital/asset management strategy for the FCRPS, including transmission.

US Army Corps of Engineers

(FY2002-06 Annual Average)

BPA Cost Baseline (Oct. 97): \$116.7 million/year - O&M

Cost Review Recommendation (Mar. 98): \$86.7 million/year - O&M

Cost Review Annual Savings: \$30.0 million/year - O&M

\$10.0 million/year - enhanced revenue

Issues '98 Annual Savings (May 98): \$30.0 million/year - O&M

(Revenue enhancement not estimated at this time.)

Bureau of Reclamation

(FY2002-06 Annual Average)

BPA Cost Baseline (Oct. 97): \$50.9 million/year - O&M

Cost Review Recommendation (Mar. 98): \$47.9 million/year - O&M

Cost Review Annual Savings: \$3.0 million/year - O&M

\$5.0 million/year - enhanced revenue

Issues '98 Annual Savings (May 98): \$3.0 million/year - O&M

(Revenue enhancement not estimated at this time.)

Cost Review Recommendation:

Develop and implement a consolidated, integrated capital/asset management strategy for federal hydro directed at maximizing value, including both financial returns and public benefits. The strategy should encompass the operation and maintenance of the physical assets, a coordinated investment plan, potential consolidation of duplicative administrative support services among FCRPS agencies and the creation of integrated performance measures. Performance should be measured explicitly and reported publicly, accountabilities established and incentives created and applied FCRPS-wide. Estimates include a combination of reduced O&M expenses from the Cost Baseline and increased revenues from higher production.

BPA Proposed Plan:

- Adopt the Committee's recommendation as BPA's goal, recognizing that the aggressive cost targets may pose risks to system performance.
- Savings recommendation would require that the Corps manage average annual O&M in FYs 2002-2006 to FY 1996 actual levels.
- BPA will work closely with the other members of the FCRPS to forge integrated asset management plans that focus on maximizing value for the region (financial returns and public benefit returns).
- These plans will further improve operations and maintenance cost

management by benchmarking functions against best industry practices and establishing integrated performance measures to enhance incentives and ensure performance accountability.

- Potential consolidation of duplicative administrative services will be investigated to gain additional efficiencies.
- The asset management plans will include coordinated investment plans that rigorously analyze investment, disinvestment and divestiture opportunities directed at maximizing the value of the FCRPS.
- Specific savings identifications to date for the FY2002-2006 period average \$8 million per year for the Corps and \$3.6 million per year for Reclamation. As the integrated asset management plans are developed, additional efficiencies will be identified.
- From FY1990 to FY1996 FCRPS hydropower availability decreased from 92 percent to 82 percent, apparently due to under-funding of an aging system. Through collaborative efforts and direct funding arrangements between BPA, the Corps and Reclamation, FCRPS hydropower availability improved to 85 percent in FY1997. To meet the enhanced revenue goal, BPA, the Corps and Reclamation will continue to work collaboratively to increase project generation capability.
- The structure of the FCRPS is such that control over the quality and cost of production is largely separated from the responsibility for marketing and recovering costs. FCRPS entities operate with multiple and often competing purposes and objectives. This complicates forging an integrated asset management strategy. This recommendation requires long-term commitment,

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| | <p>determination, and creativity from FCRPS owners to maximize financial returns and public benefits for the region.</p> <ul style="list-style-type: none"> • Long lead times are involved with these improvements, and all savings may not be available by FY 2002. |
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Cost Review Recommendation #7:

WNP-2: Aggressive cost management, flexible response to market conditions.

(FY2002-06 Annual Average)

BPA Cost Baseline (Oct. 97): \$172.5 million/year operating expenses

\$153.8 million/year operating revenues

(\$18.7) million/year net operating expenses

Cost Review Recommendation (Mar. 98): zero - net operating revenues

Cost Review Annual Savings: \$18.7 million/year net operating revenues

Issues '98 Annual Savings (May 98): \$18.7 million/year net operating revenues

<p>Cost Review Recommendation:</p> <p>Implement a strategy for Washington Water Power Supply System's nuclear plant, WNP-2, that combines aggressive cost management with a flexible response to market conditions and unforeseen costs. Manage annual operating costs to annual revenues achievable within market constraints. In BPA's subscription process and upcoming rate case, determine how to allocate the plant's costs in Bonneville rates so that its portion of the Federal Base System on a</p>	<p>BPA Proposed Plan:</p> <ul style="list-style-type: none"> • BPA agrees with the basic objective of the Cost Review recommendation, "to ensure that the operations of the plant not be insulated from the discipline of the marketplace" and to achieve the recommended increase in net operating revenues. • BPA intends to subject WNP-2 operating costs to a market test biennially, testing whether market value of the WNP-2 output recovers annual operating costs of the plant. BPA intends to solicit input on the precise
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planning basis can be marketed to ensure full recovery of the plant's operating costs (unless legal or other issues prevent doing so). To the extent revenues can exceed operating costs, use a portion of the resulting net operating revenues to build up the decommissioning fund. Biennially subject the plant's operating costs to a market test. Evaluate termination in the event operating costs are projected to exceed operating revenues. Estimated savings include a combination of reduced O&M expense from the cost baseline and potential increased revenues.

nature of this market test in a public process this year.

- Likewise, as recommended in the Review, BPA intends to re-evaluate plant termination if operating costs are projected to exceed revenues achievable at market prices by more than the termination costs.
- With the cost and revenue projections assumed by the Cost Review, this would require about \$19 million of operating cost reductions and/or revenue increases. BPA will work with the Supply System to achieve as much of this enhancement of net revenues as possible through reductions in operating costs.
- BPA intends to work with the Supply System to achieve additional operating cost efficiencies, avoid major capital additions, shorten outages, and, potentially, change from an annual to a biennial refueling cycle (would reduce from 5 to 2 the number of refuelings during next 5-year rate period).
- Cost reductions assume, in part, that there are no major equipment failures and no extensive additional regulation.
- The Cost Review also recommended that BPA market a portion of the FBS equivalent to the planned output of WNP-2 priced in a manner that ensures recovery of the plant's operating costs in the actual sales of the plant's output. Subject to further input, BPA's tentative conclusion is that the problems connected with this piece of the recommendation are not practicably solvable. It would involve selling a portion of the Federal Base System at a higher price equal to WNP2's operating costs – a legal difficulty – and reduction of the lowest cost subscription inventory when it appears that we will be over-subscribed. WNP-2's operating costs are now so close to the market and to BPA's likely subscription power rates that the cost impact of this separation on both the subscription rate and the theoretical WNP-2 rate would be negligible. Equity concerns among parties with subscription rights over who is left with the higher-priced portion of power would likely exacerbate the oversubscription issues

(see power markets, revenues and subscription fact sheet). Finally a robust market test should achieve the bulk of the cost review goal, without creating the substantial problems connected with putting a higher price on this portion of the subscription inventory.

Cost Review Recommendation #8:

Reduce Administrative and Other Internal Support Service Costs.

(FY2002-06 Annual Average)

BPA Cost Baseline (Oct. 97):	\$15.4 million/year - PBL portion of corporate overhead
Cost Review Recommendation (Mar. 98):	\$6.9 million/year - PBL portion of corporate overhead
Cost Review Annual Savings:	\$8.5 million/year - direct PBL savings
Issues '98 Annual Savings (May 98):	\$8.6 million/year - direct PBL savings
	<u>\$5.9 million/year</u> - indirect PBL savings from lower BPA transmission costs
	\$14.5 million/year - total PBL savings

Cost Review Recommendation:

Further reduce the cost of Bonneville administrative and other internal support service costs, including financial, human resources, information management, procurement, strategic planning, public affairs, legal services and other internal service costs, by an aggregate 50 percent from 1996 actual levels. Achieve through redesign of shared services, benchmarking, adoption of industry “best practices,”

BPA Proposed Plan:

- Adopt recommendation.
- Shared services redesign focuses on fundamental service activities across Bonneville, i.e., within each business line as well as within corporate.
- Savings from this effort will therefore lead to lower corporate costs and lower business line costs.
- Initial implementation of shared

implementation of enterprise software and outsourcing of non-core functions where economic.

services redesign, including a reorganization of corporate shared services (the Business Services Group), is set for FY 1999. Full implementation will be completed by start of FY 2002. The precise breakdown of savings between corporate and the business lines will not be available until the redesign is complete.

- Also included in the cost savings here are reductions in administrative activities not a part of the shared services redesign effort, such as strategic planning, public affairs and legal services.
- Currently, BPA assumes: the \$31.7 million savings total is applied as an average annual reduction to the FY 2002-2006 cost baselines; the savings are achieved proportional to the distribution of corporate overheads to the business lines.
- BPA anticipates making a final decision on an enterprise software package in FY 1999, with implementation following immediately.

Cost Review Recommendation #9:

Obtain legislation to improve administrative effectiveness and efficiency.

(FY2002-06 Annual Average)

Cost Review Recommendation (Mar. 98): \$7.0 million/year - PBL savings

Cost Review Annual Savings: \$7.0 million/year - PBL savings

Issues '98 Annual Savings (May 98): not assumed

Cost Review Recommendation:

BPA Proposed Plan:

Obtain legislative changes in the areas of personnel management and procurement to improve administrative flexibility and ability to manage internal costs.

- Support this recommendation for legislation to remove statutory barriers to improving the efficiency and effectiveness of human resource management and procurement and property management. These changes would give Bonneville greater flexibility to mold its internal operations to the needs of the changing electricity industry market.
- Savings are estimated at \$10 million per year in total, approximately \$7 million of which would reduce PBL expenses.
- Issues '98 expense projections do not include these savings at this time. Although the Transition Board is now addressing this proposal, legislation has not yet been drafted, and regional, Administration and Congressional support is not yet clear.
- BPA would not include these savings in a rate proposal unless there were reasonable assurance that legislation will be enacted.

Cost Review Recommendations #10/11:

Federal Power Act conformance (cost allocation and functionalization) and reduced transmission internal costs.

(FY2002-06 Annual Average)

BPA Cost Baseline (Oct. 97):	\$236.9 million/year - PBL transmission purchases
Cost Review Recommendation (Mar. 98):	\$205.4 million/year - PBL transmission purchases
Cost Review Annual Savings:	\$30.0 million/year - reduction (power)/increase (transmission) - from functional separation and FPA conformance
	\$1.5 million/year - from TBL cost reductions
Issues '98 Annual Savings (May 98):	\$30.0 million/year - reduction (power)/increase (transmission) - from functional separation and FPA conformance
	\$1.5 million/year - from TBL cost reductions

<p>Cost Review Recommendation:</p> <p>Further reduce transmission internal O&M expenses through improved efficiencies. Conform to functional separation and FPA requirements, adjusting and correcting allocation, functionalization and interbusiness-line transaction costs between power and transmission business lines.</p>	<p>BPA Proposed Plan:</p> <ul style="list-style-type: none"> • Assume recommended cost savings to BPA's power business line. • BPA's transmission business line has established a continuous performance improvement effort that relies on benchmarking to identify specific initiatives for cost efficiency improvements throughout the organization, and has a good recent track record. • The \$30 million cost shift from power to transmission is a very conservative assumption about interbusiness-line transactions and FPA conformance (see transmission fact sheet). These issues will be addressed in the upcoming power and transmission rate cases.
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Cost Review Recommendation #12:

Further reduce federal and non-federal debt service.

(FY2002-06 Annual Average)

BPA Cost Baseline (Oct. 97): \$963 million/year

Cost Review Recommendation (Mar. 98): \$943 million/year

Cost Review Annual Savings: \$20 million/year

Issues '98 Annual Savings (May 98): \$20 million/year

<p>Cost Review Recommendations:</p> <p>Further reduce federal and non-federal debt service expenses through refinancings, greater reliance on variable</p>	<p>BPA Proposed Plan:</p> <ul style="list-style-type: none"> • Adopt recommendation. • Base for calculating savings: non-federal debt service and federal interest expense. Excludes
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rate debt and other debt reduction actions.

interest credit on cash reserves and “capitalization adjustment” associated with Appropriations Refinancing Act.

- Greatest savings are achieved when BPA debt is managed on total portfolio basis rather than by business line.
- Debt service savings may directly benefit both power and transmission business lines; debt service savings in transmission business line also favorably impacts PBL’s transmission costs.
- Achieving a full \$20 million annual savings in power business line may well require issuance of additional unhedged variable rate exposure, which carries higher financial risk.

Strategies

- Refinance high interest callable Treasury bonds.
- Limited restructuring of Treasury and Supply System debt for interest rate efficiencies. Issue Supply System variable rate debt up to asset/liability match.
- Redeem highest-cost fixed rate Supply System debt in open market while maintaining lower-cost variable rate debt.
- Reduce debt through revenue-financing new investment or accelerating repayment of existing debt to extent financial reserves and risk tolerances allow.

Key Assumptions

- Refinancings can be completed while interest rates remain relatively low.
- Impact on stakeholders - Net Billing Participants are not materially affected by restructuring of WNP-2 debt because all WNP-2 debt still paid off by 2012.
- Bond Counsel approval required for limited restructuring of WNP-2 debt.

Cost Review Recommendation #13:

Account for previously identified “undistributed reductions.”

(FY2002-06 Annual Average)

Cost Review Annual Savings: \$(19.4) million/year

Issues '98 Annual Savings (May 98): \$(19.4) million/year

Explanation:

These were already included in the PBL baseline expense projections. Thus, while the Cost Review's specific recommendations total \$166 million for the power business line, the net change from the power cost baselines is \$145.7 million.

Page create June 4, 1998 by Katie Leonard, keleonard@bpa.gov.
